

### Business Confidence Remains Elevated ahead of Q3

Business confidence remained at record high levels ahead of Q3 2021, driven by record optimism about the state economy, industry sales, and industry hiring. The index increased 2.9 points from Q2 2021 to Q3 2021 and slipped only slightly looking out further to Q4 2021. Optimism was centered around increased demand, reopening of the economy, decreasing COVID cases, and the vaccine; however, there remained concerns about worker shortages, inflation, and the supply chain.

The Leeds Business Confidence Index (LBCI) captures Colorado business leaders' expectations for the national economy, state economy, industry sales, profits, hiring plans, and capital expenditures. The index increased 2.9 points ahead of Q3 2021, with gains across all six components of the index. Panelists anticipated a sustained recovery in the fourth quarter of 2021; the index remained near record levels two quarters out. A total of 250 qualified panelists responded to the survey from June 1 through June 21.

### Leeds Business Confidence Index

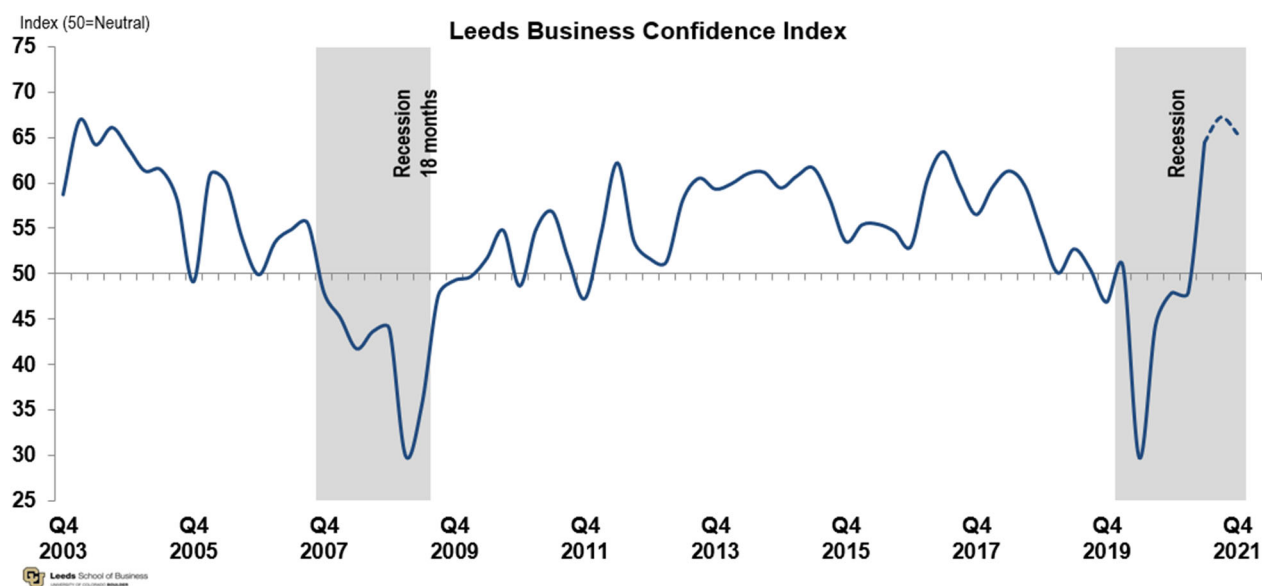
Component	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Change	
						Quarterly	Annual
State Economy	46.8	48.9	46.9	68.3	70.9	▲	▲
National Economy	43.5	44.5	43.5	65.7	67.5	▲	▲
Industry Sales	51.3	52.5	51.5	67.5	69.6	▲	▲
Industry Profits	44.8	48.8	48.7	63.1	65.2	▲	▲
Industry Hiring	42.7	48.0	49.9	61.8	67.7	▲	▲
Capital Expenditures	37.1	44.7	46.8	59.9	62.6	▲	▲
<b>LBCI</b>	<b>44.3</b>	<b>47.9</b>	<b>47.9</b>	<b>64.4</b>	<b>67.3</b>	▲	▲

- All six individual components of the LBCI recorded strong positive perceptions (above 50) ahead of Q3 and Q4 2021.
- The greatest optimism was recorded in the state economy, sales, and hiring.
- The rebound in the labor market through May left Colorado with a smaller jobs deficit than the nation (-3.9% versus -5%) and ranked the state 30th in the nation for year-over-year performance in May.
- Colorado's real gross domestic product fully recovered from the recession in Q1 2021, recouping all of the losses from the recession.
- More than half of companies reported as of June that either sales never decreased or sales have already returned to pre-pandemic levels.
- A plurality of respondents have already returned to the office, but many more expect to return to the office in the third quarter of 2021.
- A majority of respondents expect their company's employment to reach pre-pandemic levels sometime between Q3 2021 and Q4 2022.
- The survey illustrates that remote work is moderating from the pandemic peak but will generally remain a part of the work culture.

## Summary – Confidence Remains High

The LBCI improved ahead of Q3 2021, making gains year-over-year and quarter-over-quarter, keeping the index strongly into positive territory. The index rose to 67.3 ahead of Q3 2021. All six components increased from Q2 to Q3. Looking two quarters ahead to Q4 2021, expectations pulled back slightly (65.4), but remained near record levels. Three of the six components increased to an all-time high. Coupling the quantitative survey results with the qualitative comments, panelists signaled expectations of a sustained economic recovery.

Component	Q3 2021	Change		Q4 2021	Change	
		Quarterly	Annual		Quarterly	Annual
State Economy	70.9	▲	▲	70.1	▼	▲
National Economy	67.5	▲	▲	64.8	▼	▲
Industry Sales	69.6	▲	▲	67.8	▼	▲
Industry Profits	65.2	▲	▲	64.9	▼	▲
Industry Hiring	67.7	▲	▲	63.5	▼	▲
Capital Expenditures	62.6	▲	▲	61.4	▼	▲
<b>LBCI</b>	<b>67.3</b>	▲	▲	<b>65.4</b>	▼	▲

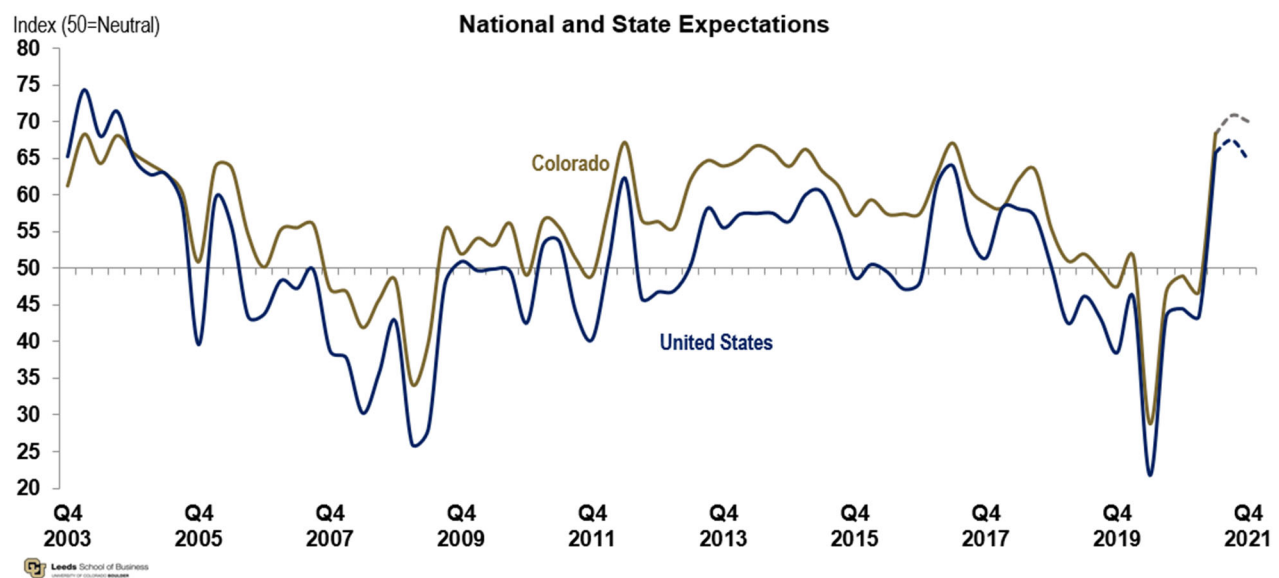


National real gross domestic product (GDP) increased at a 6.4% seasonally adjusted annual rate (SAAR) in Q1 2021 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 11.4% and government expenditures increased 5.7%, but gross private domestic investment fell 3.4%. The trade deficit increased from Q4 2020 to Q1 2021, growing to \$1.2 trillion (annualized average chained dollars). Consensus Forecasts' economic expectations for real GDP growth in 2021 rose sharply coming off the recession year. The projected 6-7% growth would be the fastest pace of GDP growth in nearly 40 years.

## National and State Economies — Optimistic Expectations

General state and national economic expectations remained elevated ahead of Q3. State expectations increased from 68.3 in Q2 to a record 70.9 ahead of Q3 and pulled back only slightly to 70.1 looking out further to Q4 2021. The state outlook is 3.4 points above the national outlook in Q3, indicating business leaders' confidence that the state will outperform relative to the nation. The national index also rose, increasing from 65.7 in Q2 to 67.5 ahead of Q3 and 64.8 ahead of Q4.

For the state economy, 92.4% of respondents believe the state economy will stay neutral-to-positive in Q3, versus 7.6% who expect slower growth. On the national level, 88.4% are neutral-to-positive, versus 11.6% who expect slower growth.



U.S. GDP grew 6.4% in Q1 2021, marking three consecutive quarters of strong growth. Despite the three periods of growth, GDP remained below peak, down 0.9% compared to Q4 2019.

According to the BEA report released June 24, 2021:

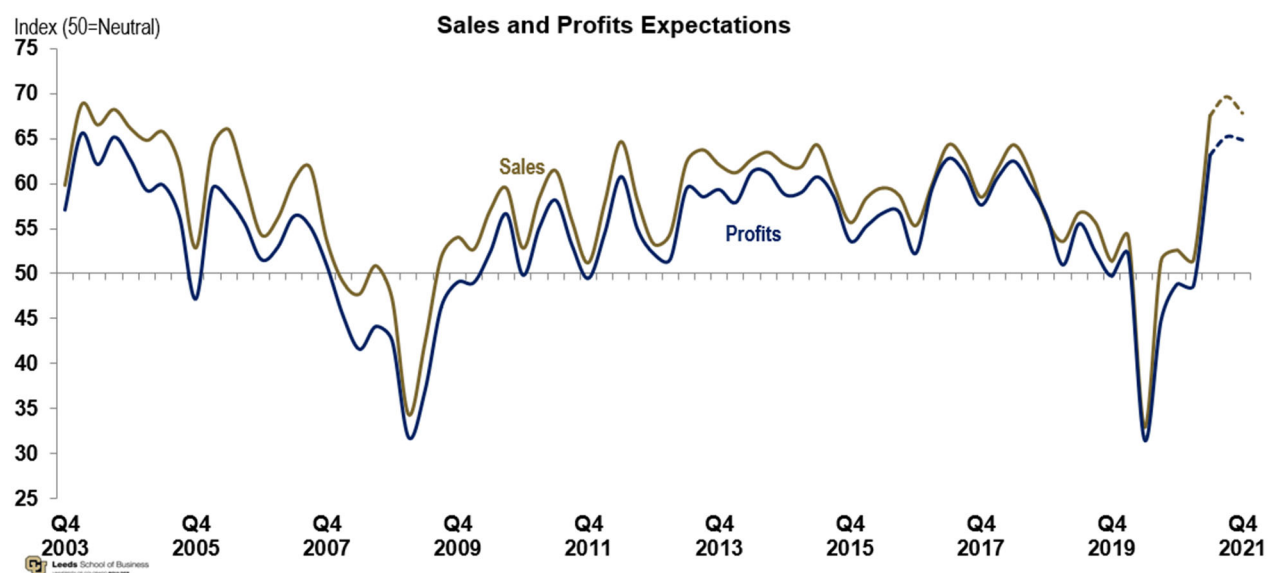
*The increase in real GDP in the first quarter reflected increases in personal consumption expenditures (PCE), nonresidential fixed investment, federal government spending, residential fixed investment, and state and local government spending that were partly offset by decreases in private inventory investment and exports. Imports increased*

*The increase in PCE reflected increases in durable goods (led by motor vehicles and parts), nondurable goods (led by food and beverages), and services (led by food services and accommodations). The increase in nonresidential fixed investment reflected increases in equipment (led by information processing equipment) and intellectual property products (led by software). The increase in federal government spending primarily reflected an increase in payments made to banks for processing and administering the Paycheck Protection Program loan applications as well as purchases of COVID-19 vaccines for distribution to the public. The decrease in private inventory investment primarily reflected a decrease in retail trade inventories (mainly by motor vehicles and parts dealers).*

Colorado's Q1 2021 real GDP increased at a SAAR of 7.9% for the quarter and increased 1.1% year-over-year, reaching a new peak level. Year-over-year, the largest percentage gains were recorded in the following industries: Finance and Insurance (14%); Management of Companies and Enterprises (12%), and Administrative and Support and Waste Management (9.5%), while Arts, Entertainment, and Recreation remained down 25.5% and Agriculture, Forestry, Fishing, and Hunting was down 23.5%.

## Sales and Profits — Still Recovering

Sales and profits expectations posted gains ahead of Q3 2021. The sales index increased from 67.5 in Q2 to 69.6 ahead of Q3 and 67.8 ahead of Q4. A majority of panelists were neutral-to-positive regarding sales (92%) and profits (89.2%) ahead of Q3.



The Q3 2021 survey asked additional questions specifically about the COVID-19 impact on company sales. Of the 229 individuals who responded, more than a third reported that sales never decreased, and nearly 19% reported that sales have already rebounded. Another 19.2% of respondents put their company's sales recovery in the second half of 2021, and 23.1% put a recovery in 2022 or after.



Sales and profits largely depend on the strength of the consumer. Prior to the virus outbreak in the U.S., consumer confidence and consumption remained strong. Confidence decreased sharply due to the pandemic but rebounded following the cycle low in April. According to the Conference Board, national consumer confidence increased 31.3 points in May 2021 compared to May 2020. Personal consumption expenditures decreased at a 33.2% seasonally adjusted annual rate in Q2 2020 but rebounded 41% in Q3 2020, 2.4% in Q4 2020, and 11.4% in Q1 2021. According to data from the U.S. Census Bureau, May retail sales were up 28.1% year-over-year.

B-to-B sales are also a signal for sales and profits. In April 2021, wholesale trade increased 43.6% year-over-year, with gains in durable goods (44.9%) only modestly outpacing gains in nondurable goods (42.4%).

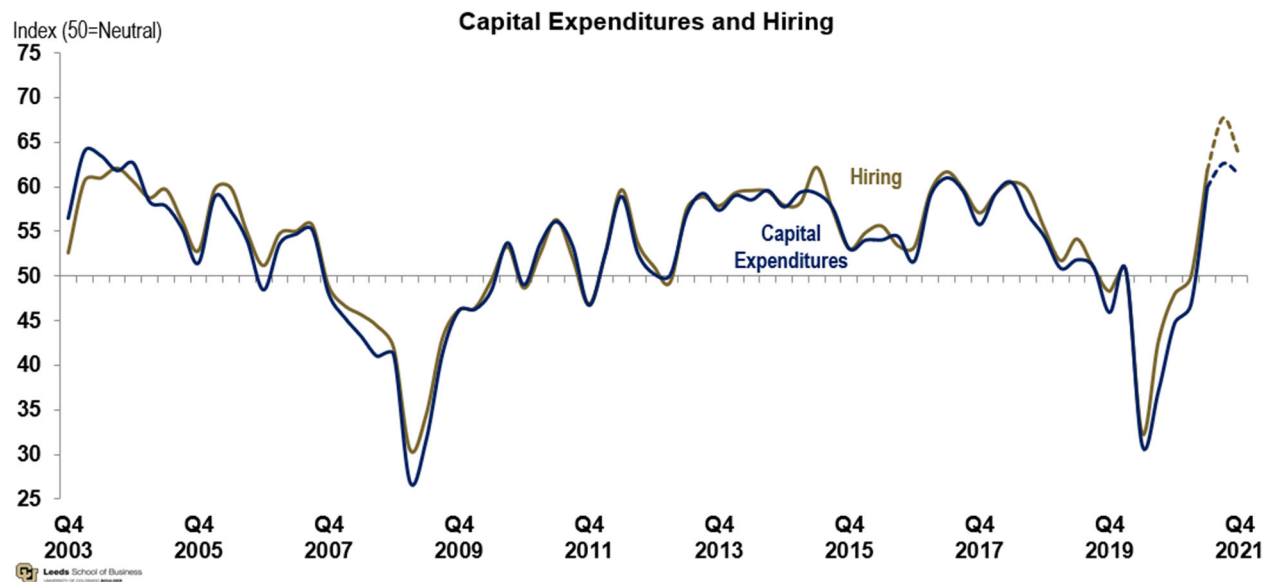
In Colorado, personal incomes continued to grow in Q1 2021. According to the BEA, Colorado's nominal personal income grew 13.9% year-over-year. Colorado had the 11th-highest per capita personal income in Q1 2021, at \$70,511, but the state slipped to 47th for per capita personal income growth year-over-year.

### **Capital Expenditures and Hiring Plans— Investment Recovering**

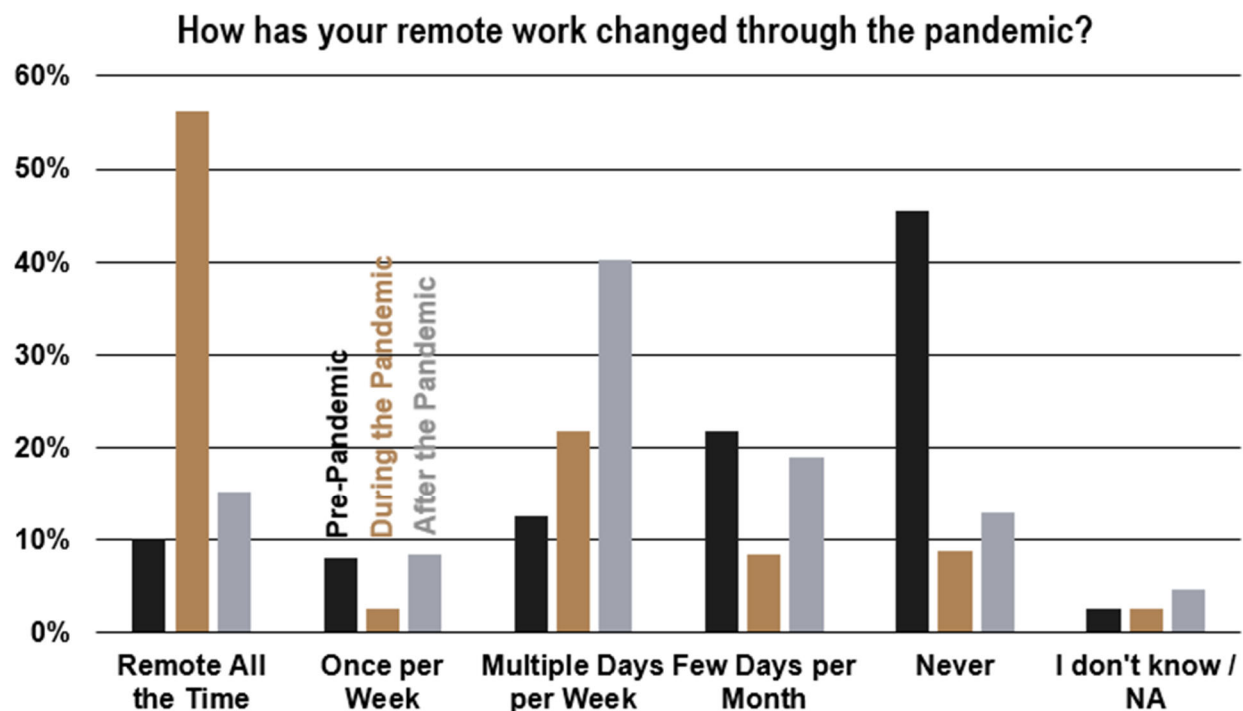
The outlook for capital expenditures and hiring increased to 62.6 and 67.7, respectively, ahead of Q3, and both metrics moderated ahead of Q4. These components reflect investment in firm growth, thus, the rebound in the index is a positive confirmation of business conditions. Ahead of Q3 2021, 93.2% of respondents expect neutral to positive growth in capital expenditures (versus 6.8% who expressed pessimism), and 94% project neutral to positive hiring.

An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the value of construction in Colorado decreased 23.1% in 2019. In 2020, however, total value of construction increased 7.9%. Residential construction drove the growth, increasing 13.4% compared to 2019. Through May 2021, Colorado's value of construction increased 20.8% year-over-year, driven entirely by growth in residential. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 5.8% January through May in 2021 compared to the same period in 2020.

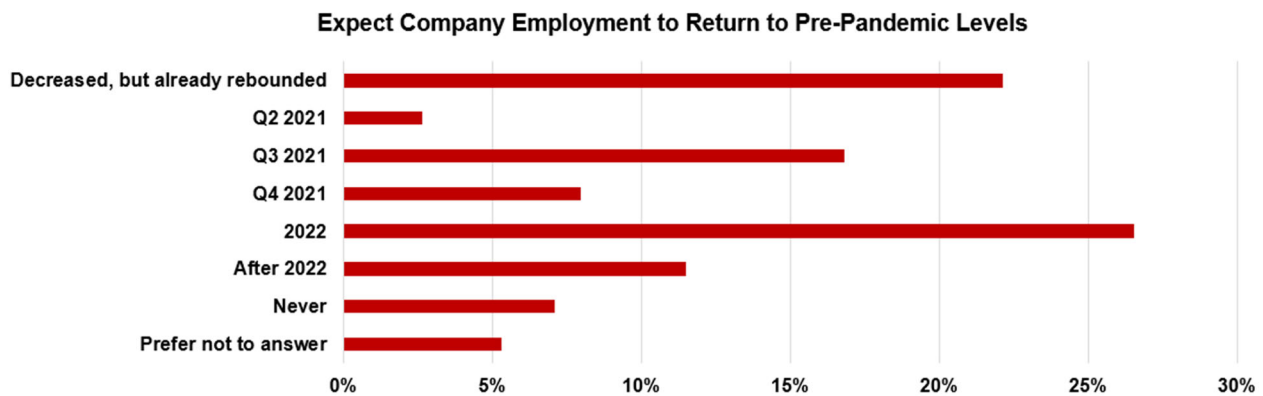
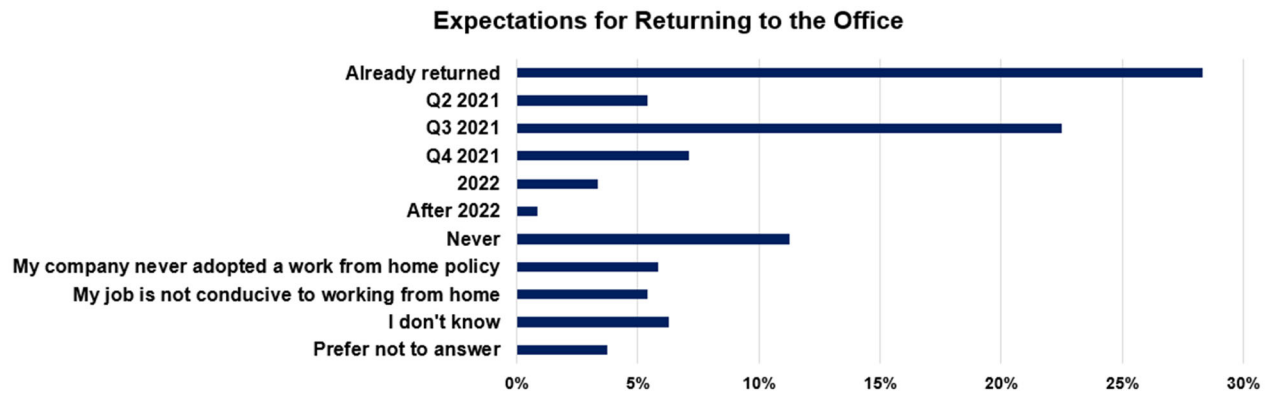
U.S. fixed business investment increased 12.1% in Q1 2021 (SAAR). Nonresidential private fixed investment increased 11.7%, with a decrease in structures, but increases in equipment and IP.



Many respondents do not expect to return to the office until the second or third quarter of 2021. A plurality of respondents have already returned to the office, but many more expect to return to the office in the third quarter of 2021. A majority of respondents expect their company's employment to reach pre-pandemic levels sometime between Q3 2021 and Q4 2022. Pre-pandemic, only 10% of respondents were remote all the time; this number spiked to 56% during the pandemic. However, only 15% of respondents expect to continue working remotely all the time post-pandemic. The survey illustrates that remote work is moderating from the pandemic peak but will generally remain a part of the work culture.







National employment has made a strong recovery from the recession lows reached in April 2020. Total nonfarm employment fell a record 14.7% (-22.4 million jobs) from February to April 2020 before rebounding 11.3% (14.7 million jobs) from April 2020 to May 2021. Total U.S. nonfarm employment grew 8.9% year-over-year in May. The unemployment rate in the United States continued to improve from 14.8% in April 2020 to 5.8% in May 2021.

Colorado nonfarm employment decreased 13.3% (-376,300 jobs) from January 2020 to April 2020 but increased 10.9% (265,200 jobs) from April 2020 to February 2021. However, Colorado employment remained down 3.9% (-111,100 jobs) in May 2021 compared to January 2020. At 6.2%, Colorado's May unemployment rate ranked the state 37th-highest in the country.

Year-over-year employment growth was recorded in all of Colorado's seven metropolitan statistical areas (MSAs) in May. The Colorado Springs MSA recorded the largest year-over-year growth (9.5%), followed by Fort Collins-Loveland (8.3%), Denver-Aurora-Greeley (7.6%), Grand Junction (6.5%), Pueblo (4.2%), Boulder (3.5%), and Greeley (2.8%). Colorado industries with the largest annual percent gains were Leisure and Hospitality (44.8%), Trade, Transportation, and Utilities (9.9%); and Other Services (8.5%).

Inflation in the Denver-Aurora-Lakewood MSA has outpaced the nation for the last eight years. In 2020, the all items index increased 2% year-over-year compared to 1.2% nationally. In May 2021, the Denver-Aurora-Lakewood MSA recorded price growth of 3.2% compared to 5% nationally. Core inflation in the Denver-Aurora-Lakewood MSA increased 1.8% year-over-year in May, shelter increased 0.5%, and all items less shelter increased 4.8%, not seasonally adjusted.

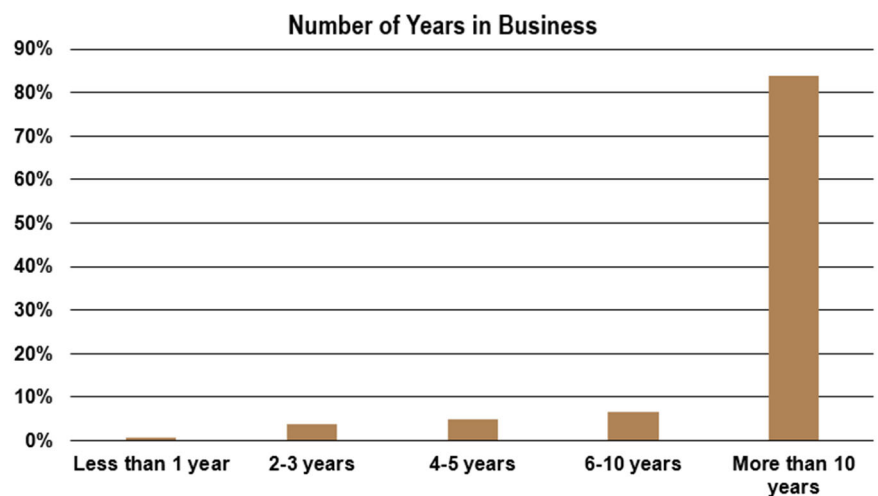
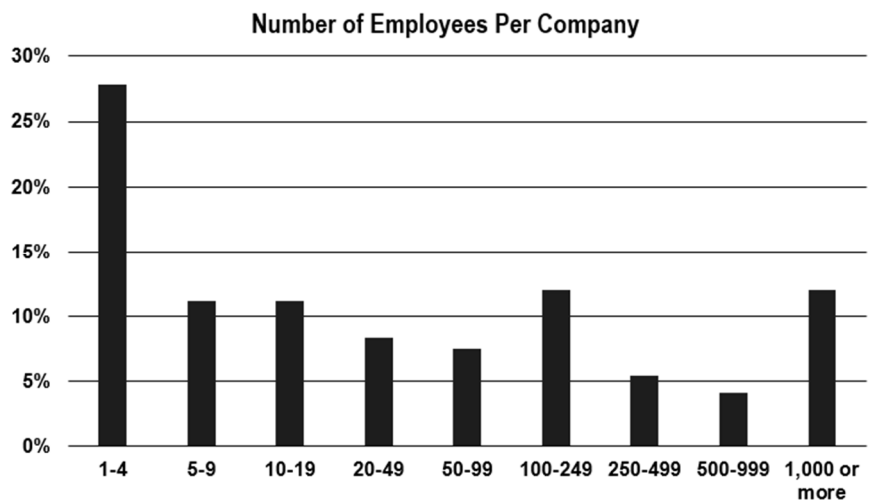
## Reason for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 182 respondents who provided an explanation, 45.6% of respondents cited normalization of activities due to the spike in demand, reopening of the economy, or decreasing COVID cases. Government policies (14.3%), inflation/prices (13.7%), and employment gains/worker shortages (10.4%) were also cited as significant reasons for responses.

## Expectations by Company Size and Length of Time in Business

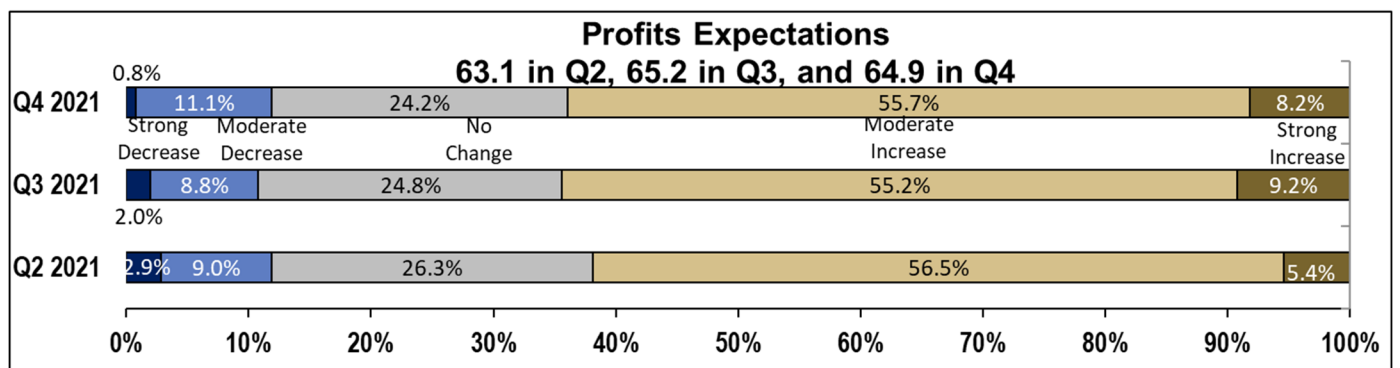
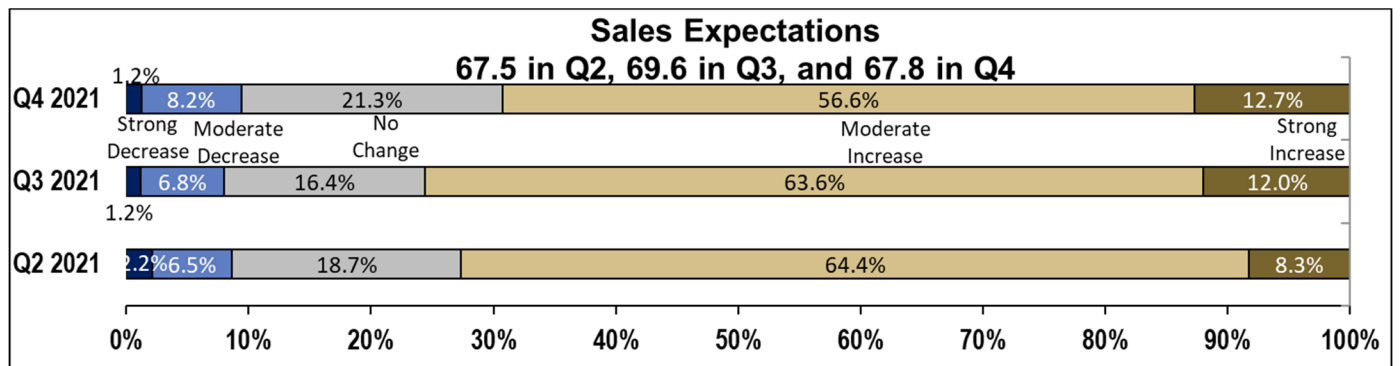
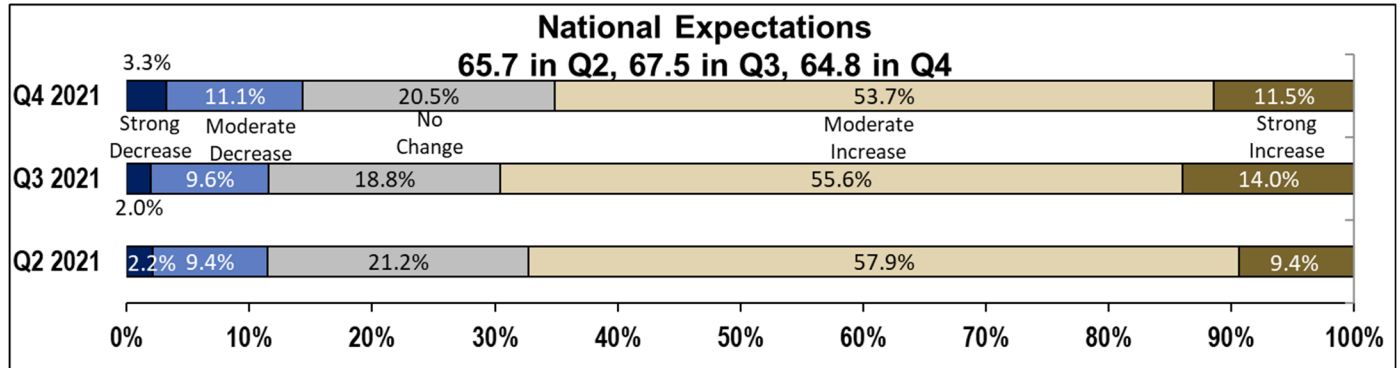
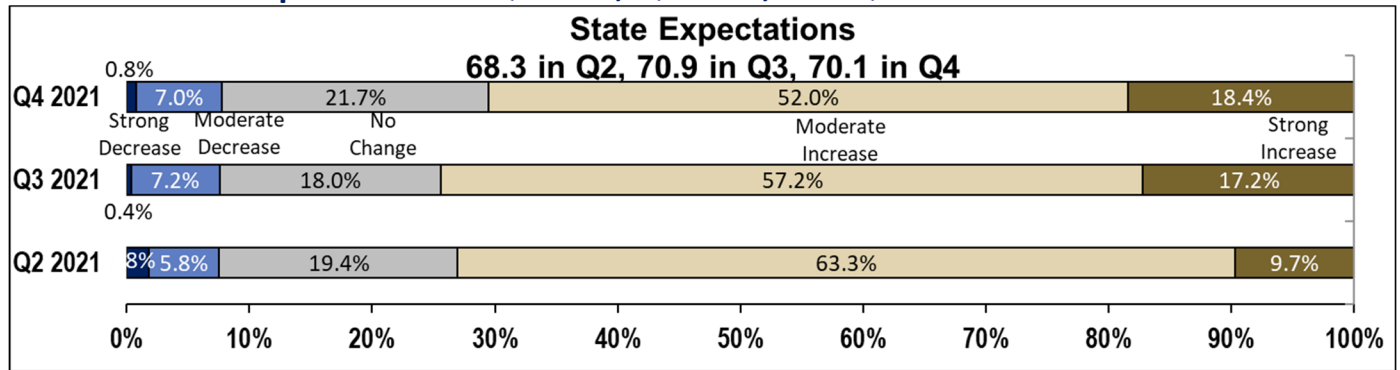
Panelists were asked about the size of their company and how long their company has been in business. A total of 84% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (50.2%) of survey respondents work for companies with fewer than 50 employees. Small employers were slightly less optimistic than large employers ahead of Q3 2021, but both were strongly positive.

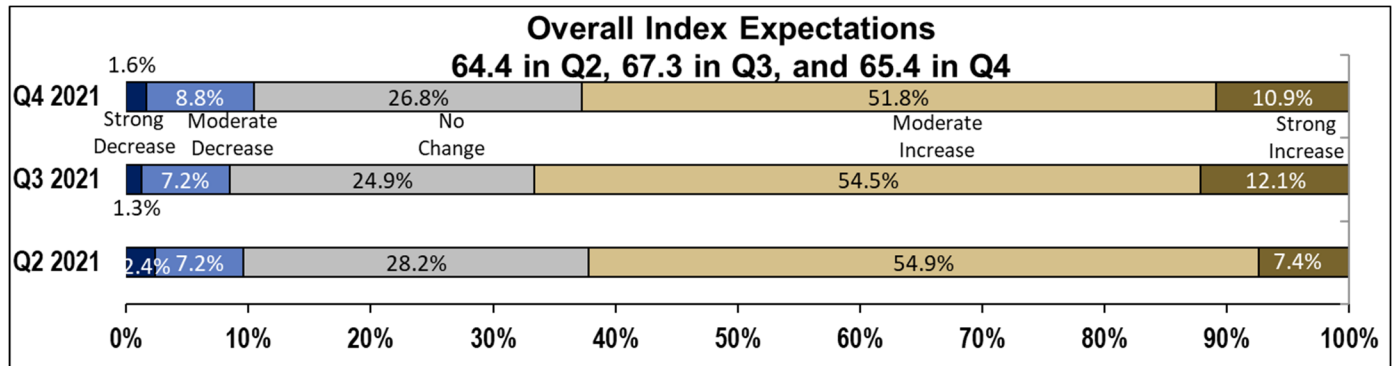
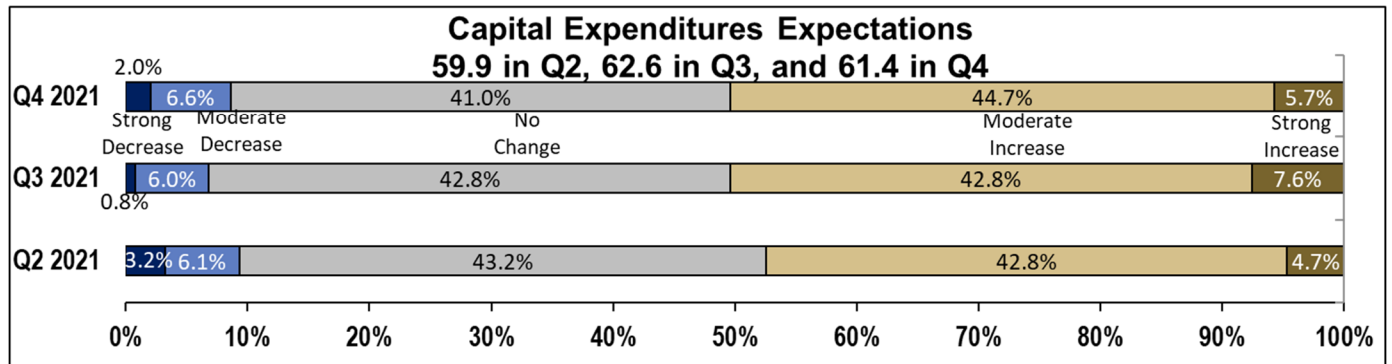
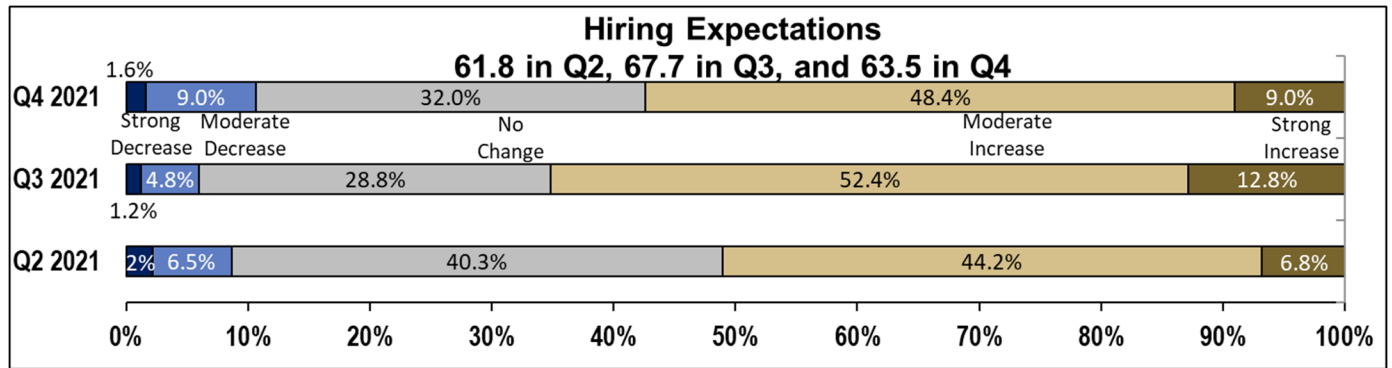
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q3 survey were in the following sectors: Professional, Scientific, and Technical Services (17%); Finance and Insurance (16%), and Real Estate, Rental, and Leasing (13%).





## Distribution of Expectations in Q2 2021, Q3 2021, and Q4 2021





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For more information about the LBCI and to become a panelist, go to:  
[www.colorado.edu/business/brd](http://www.colorado.edu/business/brd)